
MART RESOURCES, INC.

1996 ANNUAL REPORT

MART RESOURCES, INC.

LETTER TO SHAREHOLDERS

On behalf of the Board of Directors of Mart Resources, Inc., it is a pleasure to present to our shareholders the annual report for the fiscal year ended December 31, 1996. During the reporting year, Mart has been transformed from a small non-working interest participant in an oil unit in southeastern Saskatchewan to a proactive organization in aggressive pursuit of high potential international exploration and exploitation opportunities. The company is currently focusing on a number of such international opportunities.

On May 10, 1996, Mart completed its Major Transaction pursuant to the policies of the Alberta Stock Exchange. The Company acquired a combined 12.6% interest in the Workman Frobisher Unit containing 23 producing wells in southeastern Saskatchewan. The acquisition was for consideration valued at \$407,500, composed of \$257,500 cash and 750,000 common shares valued at \$150,000. Coincident with the acquisition of the Workman Frobisher interest, the Company completed a private placement of 1,750,000 units at a price of \$0.20 per unit for gross proceeds of \$350,000. Each unit consisted of one common share and one common share purchase warrant entitling the holder to purchase

one additional common share at a price of \$0.20 per common share until May 10, 1997.

Mart underwent exciting changes in structure and direction in the second half of 1996, when a fundamental decision was made to focus the Company's efforts on high potential oil and gas exploration and exploitation opportunities both domestically and internationally. In line with this decision, Mart acquired a 40% participation interest in two contiguous exploration permits totaling 36 sections on the Tsuu T'Ina Indian Reserve in the Alberta foothills west of Calgary. To acquire these interests Mart paid \$1,000,000 cash and issued 3,000,000 shares. In keeping with the Company's move into high potential plays, Mart sold its 12.6% interest in the Workman Frobisher Oil Unit on November 5, 1996 for \$400,000.

Immediately upon closing the Tsuu T'Ina acquisition, Mart commenced completing and testing the Sarcee 9-1-23-4 W5 well which had been drilled and cased as a potential Devonian Wabamun formation gas well earlier in the year. In addition, Mart spudded an exploratory well on the other permit in mid-December to test the entire Cretaceous section on a

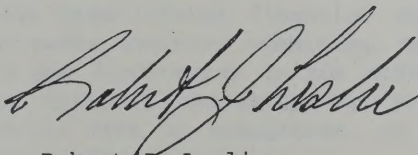
MART RESOURCES, INC.

seismically defined fault-controlled structure. Mart had increased its position in this venture to 90% prior to spudding the well. Unfortunately, neither of these opportunities resulted in the recovery of commercial amounts of hydrocarbons and Mart has relinquished its land position in the area.

In order to finance the cash portion of the purchase price paid for the Tsuu T'Ina properties as well as cover drilling and completion commitments on those properties and maintain working capital, Mart completed two financings in the second half of 1996. The first was a private placement of 3,000,000 units for gross proceeds of \$1,500,000 which closed on September 16, 1996. Each unit consisted of one common share of Mart and one share purchase warrant exercisable at \$0.65 per share on or before September 16, 1997. The second was a \$248,000 private placement on December 31, 1996, comprised of 310,000 units. Each unit consisted of one flow through common share and one half share purchase warrant. Two of the one half share purchase warrants (one warrant) entitle the holder to acquire an additional common share at \$1.00 on or before December 31, 1997.

As we enter into 1997, Mart is in the enviable position of possessing all the requisites to succeed in the Company's move into international exploration. Not the least of these is the active involvement of our directors who will share their knowledge and provide guidance in this challenging arena. We at Mart look forward to the new challenges in the coming months with excitement and anticipation.

On Behalf of the Board of Directors,



Robert J. Leslie
President and Chief Executive Officer

May 14, 1997

MART RESOURCES, INC.

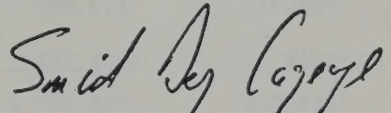
AUDITORS' REPORT

To the Shareholders of Mart Resources, Inc.

We have audited the consolidated balance sheets of Mart Resources, Inc. as at December 31, 1995 and 1996 and the consolidated statements of loss and deficit and changes in financial position for the years then ended. These consolidated financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1995 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.


CHARTERED ACCOUNTANTS

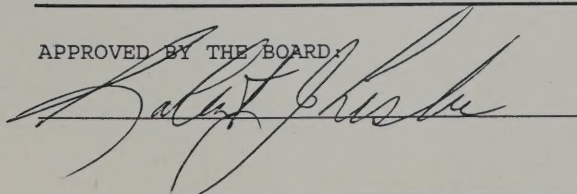
Calgary, Alberta
April 4, 1997

MART RESOURCES, INC.

CONSOLIDATED BALANCE SHEETS, as at December 31, 1995 and 1996

	1996	1995
ASSETS		
CURRENT		
Cash and term deposits	\$ 842,761	\$ 254,166
Accounts receivable	288,545	-
Prepaid expenses	<u>1,600</u>	<u>-</u>
	1,132,906	254,166
CAPITAL ASSETS - Note 3	9,094	-
PETROLEUM AND NATURAL GAS PROPERTIES - Notes 2 and 4	3,232,920	-
DEFERRED CHARGES	-	13,874
TOTAL ASSETS	\$4,374,920	\$ 268,040
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable	\$ 452,353	\$ 12,427
SHAREHOLDERS' EQUITY		
SHARE CAPITAL - Note 5	4,009,031	255,855
DEFICIT	<u>(86,464)</u>	<u>(242)</u>
	3,922,567	255,613
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$4,374,920	\$ 268,040

APPROVED BY THE BOARD:



Director

MART RESOURCES, INC.

CONSOLIDATED STATEMENT OF LOSS AND DEFICIT

FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1996

	1996	1995
REVENUE		
Oil and gas	\$ 46,831	\$ -
Interest	<u>1,905</u>	<u>3,515</u>
	48,736	3,515
EXPENSES		
Consulting	65,358	-
Depreciation	1,211	-
General and administrative	16,793	86
Professional fees	20,399	809
Stock exchange and transfer agent fees	23,098	2,862
Wages and benefits	<u>8,099</u>	<u>-</u>
	134,958	3,757
NET LOSS FOR THE YEAR	86,222	242
DEFICIT - Beginning of year	242	-
DEFICIT - End of year	\$ 86,464	\$ 242
Loss per share	0.01	0.00

MART RESOURCES, INC.

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1996

	1996	1995
CASH PROVIDED BY (USED IN) :		
OPERATING ACTIVITIES:		
Net loss for the year	(86,222)	(242)
Items not affecting cash		
Depreciation	<u>1,211</u>	<u>-</u>
	(85,011)	(242)
Net change in non-cash working capital balances	<u>149,781</u>	<u>12,427</u>
	64,770	12,185
FINANCING ACTIVITIES:		
Issue of share capital:		
Common shares	2,041,176	255,855
Acquisition of petroleum and natural gas properties	1,650,000	-
Exercise of options	41,750	-
Conversion of warrants	<u>20,250</u>	<u>-</u>
	3,753,176	255,855
INVESTING ACTIVITIES:		
Acquisition of capital assets	(10,305)	-
Acquisition of petroleum and natural gas properties	(3,232,920)	-
Deferred charges	<u>13,874</u>	<u>(13,874)</u>
	(3,229,351)	(13,874)
INCREASE IN CASH	588,595	254,166
CASH - Beginning of year	254,166	-
CASH - End of year	\$ 842,761	\$ 254,166

MART RESOURCES, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 1995 AND 1996

NOTE 1 NATURE OF BUSINESS

The Company was incorporated under the Business Corporations Act (Alberta) on November 7, 1994 as 631001 Alberta Ltd. and changed it's name to Mart Resources Inc. on April 7, 1995. The Company was classified as a Junior Capital Pool Company as defined in the Alberta Securities Commission Policy 4.11. During the year the Company completed its major transaction involving the acquisition of a producing petroleum and natural gas property.

These consolidated financial statements include the results of operations of the Company and it's subsidiary, 704922 Alberta Ltd.

NOTE 2 ACCOUNTING POLICIES

a) Petroleum and natural gas properties

The Company follows the full cost method of accounting for petroleum and natural gas properties, whereby all costs of exploring for and developing of petroleum and natural gas properties are capitalized. Costs capitalized include land acquisition costs, geological and geophysical expenditures, drilling costs of productive and non-productive wells, and future site removal and restoration costs. Gains or losses are not recognized upon disposition of petroleum and natural gas properties unless such a disposition would significantly alter the rate of depletion.

Depletion is provided for using the unit-of-production method based on estimated gross proven reserves.

Cost accumulated in each cost centre will be limited to aggregate future net revenues from estimated production of proven reserves plus aggregate future general and administrative expenses, estimated future site restoration costs, financing costs and income taxes.

MART RESOURCES, INC.

NOTE 2 ACCOUNTING POLICIES - CONTINUED

All of the Company's petroleum and natural gas exploration and development activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

b) Capital Assets

Capital assets are depreciated at the following rates:

Furniture and fixtures	- 20% declining balance
Computer equipment	- 30% declining balance

NOTE 3 CAPITAL ASSETS

	1996		1995	
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Furniture	6,700	670	6,030	-
Computer equipment	<u>3,605</u>	<u>541</u>	<u>3,064</u>	-
	<u>10,305</u>	<u>1,211</u>	<u>9,094</u>	-

NOTE 4 PETROLEUM AND NATURAL GAS PROPERTIES

Petroleum and natural gas property	3,232,920
Depletion	-
	<u>3,232,920</u>

The Company's petroleum and natural gas properties consist of interests in certain oil and gas permits on the Tsuu T'Ina Indian Reserve located west of Calgary, Alberta. At December 31, 1996 there had been no commercial production from these properties. Once production begins depletion will be recorded.

MART RESOURCES, INC.

NOTE 5 SHARE CAPITAL

a) Authorized:

Unlimited number of common voting shares

Unlimited number of preferred shares, issuable in series

Issued:

Common shares	Number of Shares	Stated Value
Issue of common shares for cash (net of costs of \$46,645)	<u>2,683,334</u>	<u>\$ 255,855</u>
Balance at December 31, 1995	2,683,334	255,855
Issued on exercise of broker warrants	135,000	20,250
Issued on acquisition of petroleum and natural gas properties	3,750,000	1,650,000
Issue of common shares for cash (net of costs of \$56,824)	5,060,000	2,041,176
Issue on exercise of options	<u>278,330</u>	<u>41,750</u>
Balance at December 31, 1996	<u>11,906,664</u>	<u>\$4,009,031</u>

Under the requirements of the Alberta Securities Commission and the Alberta Stock Exchange, 1,333,334 common shares issued upon incorporation are held in escrow. The escrowed shares will be released, upon consent of the Alberta Securities Commission, as to one-third thereof on each of the first, second and third anniversaries of the completion of the Company's Major Transaction on March 14, 1996.

b) Stock Options

As at December 31, 1996 there were 740,000 common shares reserved for issue on exercise of stock options by directors, officers, employees and other key personnel of the Company.

MART RESOURCES, INC.

NOTE 5 SHARE CAPITAL - CONTINUED

c) Warrants Outstanding

On December 31, 1996 the Company completed a private placement of 310,750 units, for gross proceeds of \$248,600. Each unit consisted of one flow through common share and one-half of a share purchase warrant. Each whole purchase warrant entitles the holder to purchase one additional common share of the Company at a price of \$1.00. These warrants expire on December 31, 1997.

On March 28, 1996, the Company completed a private placement of 1,750,000 units, for a gross proceeds of 350,000. Each unit consisted of one common share and one share purchase warrant. Each purchase warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.20. These warrants expire on March 28, 1997.

On September 16, 1996, the Company completed a private placement of 3,000,000 units, for gross proceeds of \$1,500,000. Each unit consists of one common share and one share purchase warrant. Each purchase warrant entitles the holder to purchase one additional common share of the Company at a price of \$0.65 these warrants expire on September 16, 1997.

NOTE 6 INCOME TAXES

At December 31, 1996 the Company has incurred non-capital losses for Canadian income tax purposes of approximately \$219,000. These losses will expire between 2002 and 2003 if sufficient taxable income is not generated. The Company also had available for deduction, at rates allowed under the Income Tax Act, \$1,617,000 of oil and gas expenditures. The potential future benefit of these losses and deductions have not been reflected in the financial statements.

Certain of the Company's oil and gas properties were acquired on a tax roll-over basis. The book value of these assets exceed the tax cost by \$1,500,000.

MART RESOURCES, INC.

NOTE 7 RELATED PARTY TRANSACTIONS

During the year the Company acquired certain oil and gas property from a corporation controlled by a director of the Company for a purchase price of \$2,783,000 which was satisfied by the issuance of 3,000,000 common shares and cash of \$1,283,000.

MART RESOURCES, INC.

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